

Revisiting Who, When and Why Stakeholders Matter:  
Trust and Stakeholder Connectedness

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Abstract: With limited resources and attention, managers have sought ways to categorize and prioritize stakeholders. The underlying assumption is that some stakeholders matter more than others. However, in the information age, stakeholders are increasingly interconnected, where a firm's actions toward one stakeholder are visible to others and can impact members of the stakeholder ecosystem. Actions by a firm toward any of its stakeholders can signal its trustworthiness and determine to what degree other stakeholders will assume vulnerability and engage in future exchange relationships. In this conceptual article, I present a model of stakeholder connectedness and describe the conditions in which a firm's actions toward one stakeholder can build or erode trust across stakeholders. This work contributes to current tensions in stakeholder theory by elucidating how the treatment of a single stakeholder, or a narrow group of stakeholders, can have cascading effects on a broader group of stakeholders.

Key words: Stakeholder Trust, Trust Building Actions, Transparency, Voluntary Action, Organizational Responsiveness.

In an increasingly complex and interconnected ecosystem of stakeholder interests and relationships, trust is the lubricant that allows a firm's relationships with stakeholders to be productive (Luhmann, 1979; Fukuyama, 1995). This is because organizations that are perceived as trustworthy are more likely to receive support and resources (Asforth & Gibbs, 1990) and obtain commitment and attachment from its members (Lind & Tyler, 1998; Elsbach, 2003). Furthermore, trust enables stakeholders to achieve mutual interests, creating a source of competitive advantage (Barney & Hanson, 1994; Nahapiet & Ghoshal, 1998). Trust can compensate for the limits of agency theory, provide an alternative governance mechanism to the theory of the firm and create efficiencies in inter-firm and intra-firm transactions that cannot be matched by costly monitoring and contractual agreements. For these reasons, scholars have argued that trust and trustworthiness are a more efficient mode in the establishment of cooperative interactions that lead to value creation (Jones & Wicks, 1999).

However, trust in business is at alarmingly low levels (Pirson, Martin, & Parmar, 2017). Corporate scandals like Volkswagen's emissions failure not only weaken the trust of customers who purchase products but also the trust of employees, suppliers, investors and the government. Low trust can undermine stakeholder and business relationships, reduce the organization's legitimacy, and limit access to resources. Whereas, interpersonal trust is the willingness of an individual to be vulnerable to another (Mayer, Davis, & Schoorman, 1995), stakeholder trust is the willingness of a stakeholder to be vulnerable to a business (Pirson & Malhotra, 2011). In order to increase trust and realize the benefits of stakeholder trust, more work is needed to understand how firms can build trust with stakeholders. While stakeholder trust is important to the success of an organization, research in the area of stakeholder trust is nascent and we know relatively little about trust at the stakeholder level (Pirson et al., 2017).

One prescribed solution to managing the complex web of relationships is to prioritize stakeholders and to evaluate the legitimacy of their demands (e.g. Mitchel, Agle, & Wood, 1997; Eesley & Lenox 2006). Rather than categorizing, prioritizing and making tradeoffs, it may be useful to view the connectedness of stakeholders and explore how connectedness among stakeholders can increase trust across the stakeholder ecosystem. Because stakeholder trust is socially embedded in relationships, contexts and structures of networks (Granovetter, 1995; Wicks, Berman, & Jones, 1999), scholars have called for work to help better understand how stakeholder relationships work at the organizational level and how stakeholders are connected within a system (Freeman et al., 2010). According to Freeman, the reason is simply that “no stakeholder stands alone in the process of value creation and that the stakes of each stakeholder group are multi-faceted and inherently connected to each other” (p.27). If we assume that the actions of a firm toward one stakeholder have implications for other stakeholders, it would be useful to understand how a business might harness these actions for maximum impact – including building trust. Rather than focus on tradeoffs among stakeholders, it might be wise to focus on the interconnectedness of stakeholders within a system. In other words, insights may be gained from enlarging the lens through which we view the problem of building stakeholders’ trust in a business.

When we view stakeholders within a system, we can better understand how the actions of a firm toward one stakeholder can influence the perceptions of trustworthiness of other stakeholders. At the organizational level, a business’s actions toward one stakeholder may serve as a proxy for the trustworthiness of the business. To wit, stakeholders that observe a third party interaction between the firm and a single stakeholder may extract information that influences the degree to which the stakeholder chooses to be vulnerable to that firm. In the information age, the

actions of one a firm toward one stakeholder are increasingly visible to other stakeholders. However, because interactions toward one stakeholder can provide ambiguous or incomplete information and not all actions convey trust, it falls to the organization to manage these interactions to clearly convey trustworthiness.

In this article, I leverage the ideas of stakeholder connectedness, trust and trust building actions to develop a theoretical model for stakeholder trust formation. The model (see Figure 1) presented in this article is built upon the well-established dimensions of trust: ability, benevolence and integrity (e.g. Mayer et al, 1995; Jarvenpaa, Knoll, & Leidner, 1998; Mayer & Davis, 1999; Poon, 2013). At the firm level, ability refers to the capability to perform as expected. Benevolence reflects the idea that the organization exhibits good intent and seeks to satisfy the needs of stakeholders. And, integrity is the idea that the organization's actions are fair, that the organization keeps its promises and operates according to moral principles. In this article, I explain how prioritizing and making tradeoffs among stakeholders can decrease perceptions of ability, benevolence and integrity in the focal firm. I also argue that interactions between the firm and one stakeholder that are characterized by dimensions of trust as well as related constructs of voluntary action, transparency and responsiveness will be associated with the increased trust of other stakeholders that observe the firm's actions.

This article contributes to stakeholder theory by conceptualizing the interaction effects of stakeholders (Freeman et al., 2010). While stakeholder connectedness is not a new idea, there is very little work unpacking the connection among stakeholders and describing the mechanisms that connect them. In so doing, this work helps address the tension of differential treatment among stakeholders. Rather than submitting to the notion that stakeholder theory requires more favorable treatment for some stakeholders than others, this framework helps us understand how

the benefits of favorable treatment can be generalized among a greater stakeholder ecosystem. Second, this framework contributes to the nascent literature on stakeholder trust by identifying ways that businesses can build trust with stakeholders. In so doing, I offer an alternative to stakeholder prioritization and tradeoffs by highlighting the connectedness of stakeholders within a system. Because stakeholder trust formation is in its infancy (Pirson et al., 2017), I outline testable propositions to help advance growing interest in this area. Finally, my work contributes to organization impression management by highlighting trust building actions that can increase the perceived trustworthiness of a business. In what follows, I will review relevant literature on trust and stakeholder trust. Next, I will develop and present propositions to operationalize the idea of stakeholder connectedness vis-a-vis stakeholder trust. Finally, I will discuss the implications for stakeholder management.

#### Stakeholder Trust and Cues From Third Parties

Although the origin of trust is grounded in the perspective of individuals (Pirson et al., 2017) the target of trust may be an organization (Pirson & Malhotra, 2012). Stakeholder trust is important because when a stakeholder engages in an exchange relationship with a business there is some degree of uncertainty regarding the outcome. A firm may change vendors, discontinue a product or reduce employee benefits. Firms have the ability to distribute valuable resources, information and support to stakeholders and stakeholders can become dependent on these resources. If a firm withholds resources or the quality of the resources degrades (e.g. product recalls), a stakeholder may suffer. Thus, when stakeholders make themselves vulnerable and assume the risk of an exchange, a question they may ask is “will the firm act in a way that considers and accommodates my interests?” In this way, the intentionality of benevolence becomes a key assumption that informs the exchange between the firm and a stakeholder. When a stakeholder

has positive expectations that the business is willing to cooperate, the stakeholder is more inclined to assume risk and enter into a productive exchange.

Aware of the risks associated with an exchange relationship, stakeholders are continually monitoring a firm's actions and evaluating trustworthiness. However, because it is difficult to obtain first-hand information about an organization's trustworthiness (Kramer, 1999; Burt & Knez, 1995), stakeholders may seek and out and evaluate trustworthiness cues from interactions with secondary sources. Scholars argue that third parties can play an important role by disseminating information about an individual's trustworthiness. Ferrin and colleagues (2003) introduce the concept of trust transferability, whereby a third party plays an important role in providing trust-related information. Other scholars have highlighted the role that third parties can play as trust intermediaries (McEvily, Perrone, & Zaheer, 2003) or trust advisors (Coleman, 1993). When direct information about trustworthiness is difficult to obtain, these third parties serve as a proxy for determining trustworthiness of an individual. For example, in a high tech company, scholars found that individuals shared "second hand" information with employees about managers that informed perceptions of management's trustworthiness (Burt & Knez, 1995). Uzzi (1997) studied the role of third parties in disseminating information regarding trustworthiness in the apparel industry. He found that in the formation of new relationships between organizations, a third party helped transfer trust from an embedded relationship to a new relationship. In other words, existing relationships furnished "a basis for trust and subsequent commitments to be offered or discharged" (p. 48) in fledgling relationships.

As an example, the organization's treatment of employees may act as a third party reference and be a particularly strong cue of trustworthiness. Researchers have argued that employees are a critical stakeholder that merit special consideration because of their relationship

to a firm's competitive advantage (Jones, 1995; Pfeffer, 1996). Employees are of particular importance in the stakeholder ecosystem because they touch all other stakeholders. They are the outward facing embodiment of the firm, and as such, represent the values and norms of the firm. Furthermore, the norms of ability, benevolence, and integrity (Mayer et al., 1995) as demonstrated by the firm to the employee are likely to be reciprocated by employees during interactions with other stakeholders. Trustworthy behavior demonstrated by the employees to other stakeholders can then increase the stakeholders' trust towards the firm. In this way, the trust established in the firm-employee dyad can influence the degree of trust held by other stakeholders in the focal firm. Firms like Google, Wegmans and Edward Jones enjoy the reputation for being one of the best places to work because of their treatment of their employees. These firms demonstrate trustworthiness by their actions toward to their employees – actions that provide cues of trustworthiness to encourage investors to invest and consumers to purchase their products.

In contrast, a firm's visible actions toward one stakeholder can decrease the trust of other stakeholders in the focal firm. For example, when Siemens revealed that hundreds of employees had been paying bribes to win contracts, shareholders, the German public, employees and the government lost trust in Siemens (Deitz & Gillispie, 2012). In another case, when it was discovered that Goldman Sachs was peddling securities that they knew were problematic, not only did their customer base lose confidence in Goldman Sachs, but also the government, the community and investors perceived the firm to be less trustworthy. In this manner, the perceived treatment of one stakeholder, the customer in the case of Goldman Sachs, eroded the trust held by other stakeholders.



In summary, stakeholders may look to third parties for trust specific cues that inform evaluations about the trustworthiness of an organization. Through third party interactions, stakeholders may generalize the actions demonstrated by the firm (Dunford et al., 2015). In other words, “if the firm is willing to do that to one stakeholder why wouldn’t they act in like manner in our relationship?” In this way stakeholders in a system may experience a transfer of trust (Coleman, 1993). When stakeholders observe that another stakeholder can trust an organization, they may be more likely to extend trust to that organization.

Proposition 1: Actions by a firm toward one stakeholder provide cues to other stakeholders that will influence the perceived trustworthiness of the focal firm.

#### Trust Building Actions of Ability, Benevolence and Integrity

Rather than prioritizing stakeholders, it is useful to consider how the notion of stakeholder connectedness can be leveraged to magnify the impact of a firm’s finite attention and resources. As I have argued, there are ways in which the benefits of treatment towards one stakeholder, or toward a narrow group of stakeholders, can be generalized across a greater group of stakeholders. A firm’s visible actions towards one stakeholder can provide cues regarding the firm’s trustworthiness and influence the quality of relationship with other stakeholders (Burt & Knez, 1995; Ferrin et al., 2004; Koufaris & Hampton-Sosa, 2004; Uzzi, 1997). However, a firm’s actions are subject to interpretation. In the following sections, I identify the characteristics that, when attributed to a firm’s actions toward one stakeholder, will result in the increased trust of other stakeholders in the focal firm.

When a firm takes action to satisfy a stakeholder, the underlying motive is not always clear. For example, when Nike responded to poor working conditions in its manufacturing

facilities it was unclear whether or not the firm acted with benevolence toward these workers or in its own self-interest of preservation. Due to the ambiguity associated with a firm's actions and the underlying intent of its managers, firms must be proactive in managing their interactions with stakeholders to create clarity regarding their trustworthiness. Trust repair and organization perception management literatures emphasize the importance of interactions that convey certain signals (Bachmann et al., 2015; Kim, Dirks, & Cooper, 2009). Indeed, some actions can be designed and carried out by an organization to influence the perception of that organization (Elsbach, 2003). These actions are imbued with meaning that create images of the organization that can become reputations and identities. The most powerful of actions can help organizations be perceived as "more worthy...meaningful, more predictable and more trustworthy" (Suchman, 1995, p. 575). Even when trust is violated, actions like apologies, punishment and compensation can aid in the sense making process to aid trust repair (Kim et al., 2009). These actions can be verbal or action-oriented and provide cues as to the intent of the organization.

Given the body of research supporting the dimensions of trust (e.g. Mayer et al., 1995; Jarvenpaa, Knoll, & Leidner, 1998; Mayer & Davis, 1999; Poon, 2013), it is reasonable to expect that a firm's actions that convey ability, benevolence and integrity toward one stakeholder provide cues regarding the trustworthiness of an organization. Consider toy manufacturer Mattel's response to a crisis in stakeholder trust. When Mattel found that lead-based paint was used in the manufacturing of its products, it launched a massive global recall, enacted new supplier controls and began inspecting every new toy. With an eye towards the safety of children who would play with the toys, Mattel's efforts prevented two-thirds of the product from reaching consumers (Dietz & Gillespie, 2012). Mattel also launched a marketing campaign urging parents to not let their children use the tainted toys. Bob Eckert, the CEO at the time, emphasized that

“absolutely nothing is more important than the safety and well being of our children” (p.11). Mattel demonstrated ability by executing on its promise to do everything it could to protect the interests of consumers and by implementing measures to prevent the issue from arising in the future. They also showed benevolence by acting in the interests of their consumers. Finally, Mattel demonstrated integrity by taking actions that conveyed consistency between their promises (e.g. marketing campaign, internal communications) and visible actions to fix the problem. The results of Mattel’s efforts were well received and 75% of American consumers approved of Mattel’s response to the failure (Warner, 2007).

Although the recommendation that firms should take trust building actions that are characterized by ability, benevolence and integrity, is straightforward, it stands in contrast to recent arguments in the stakeholder trust literature. Indeed, scholars have begun explore the idea that different dimensions of trust matter more to some stakeholders than others. For example, Pirson and colleagues (2012) found integrity mattered in shallow relationships (reflecting the intensity and intimacy of the relationship) but not in deep relationships and that stakeholders with deep relationships with an organization tend to base their trust on benevolence. In another study, scholars found evidence that suggested a relationship between personality and trust cues (Pirson et al., 2017). In other words, personality type influenced the type of cues that were most important in trust formation. Other scholars have shown that in joint ventures the value of the dimensions of trust varies by stage of development (Boersma, Bukly, & Ghuari, 2003). These studies are consistent with Sheppard and Sherman (1998) who claim that different dimensions of trustworthiness matter depending on the type of stakeholder relationship and argue for a contingent theory of trust formation.

Although interesting, this work is not without limitations. First, a contingency approach to building stakeholder trust is difficult to operationalize. Indeed, the findings of these studies represent a daunting challenge for organizations: create a tailored message and perform trust building actions emphasizing differing dimensions of trust for each type of stakeholder and each personality type within the stakeholder group. Thus, the main argument against a contingent approach to stakeholder trust formation is pragmatic in nature. How would a firm begin to put into practice these ideas? Second, trust building actions of an organization may be visible to multiple stakeholders. Hence, because the dimensions of trust may resonate with each group in different ways, it is important to perform trust building actions that convey ability, benevolence, and integrity. Finally, a contingency approach can undermine stakeholder trust because it may communicate inconsistency and inauthenticity. As a result, in order for actions of a firm toward one stakeholder to increase trust of other stakeholders, these actions need to be characterized by all three dimensions of trust.

#### Stakeholder Voluntary Action

I now turn to additional characteristics of these actions that convey trustworthiness. As described earlier, the motives behind a firm's actions can be unclear and cues regarding trustworthiness can be somewhat ambiguous (Kramer, 1999, Burt & Knez, 1995). Thus, organizations may need to consider additional characteristics of their actions to more clearly convey ability, benevolence and integrity. As depicted in Figure 1., I present three dimensions that are supplementary to the ability, benevolence, integrity framework because of the role they play in removing the ambiguity associated with an organization's actions and its trustworthiness.

The first supplementary dimension is voluntary action. Despite the centrality of voluntary action in stakeholder relationships, very little has been done to explore this concept as described

by Freeman in his original work. In this context, voluntary “means that an organization must on its own will undertake to satisfy its key stakeholders...a situation where a solution to a stakeholder problem is imposed by a government agency or the courts must be seen as a managerial failure” (Freeman, 1984: p.74-75). Acting of its own will is important to building stakeholder trust because when acts are perceived as voluntary they may be more likely to be attributed to benevolence. In contrast, when the actions of an organization are perceived by stakeholders as obligatory or reactive, they may be perceived as self-interested. It follows that it may not be enough to simply do the “right thing” - organizations must take action of their own volition if these actions are to convey trustworthiness.

The notion of voluntary action is consistent with scholars who have argued that organizations should proactively take measures to build trust rather than waiting on regulations or external agencies (Bachman et al., 2015). Research suggests that regulatory systems that are voluntarily adopted are more effective at restoring trust (Nakayachi & Watabe, 2005) and that voluntary penance for wrongdoing is a key part of increasing trust (Dietz & Gillespie, 2012). Voluntary punishments signal that a price has been paid by the organization and convey ownership. During the scandal at Siemens, the chairman resigned and the company voluntarily agreed to a 15-year program that included a \$100 million payment to non-profit organizations fighting corruption. In another example, a British water company repaired trust by the voluntary turnover of senior management and board of directors. These voluntary actions helped restore and build trust with stakeholders.

It also holds that actions that are perceived as involuntary can diminish trust. Rather than acting voluntarily, there are times when companies react to public outcry or government interventions. These involuntary actions call into question the motives and the benevolence of

the organization. In 2017, South Korea's transport ministry issued its first ever compulsory vehicle recall. The evidence of faulty parts in over 240,000 vehicles only came to light through a whistleblower. Until then, Kia and Hyundai had refused to act voluntarily stating that there was no safety risk. As a consequence, trust decreased in these automakers and country officials are now requesting that prosecutors look for evidence of a cover up ("Whistleblower Sparks", 2017). In these examples, we see the impact that voluntary action can have on building or eroding trust. Indeed, voluntary action can signal benevolence, increasing stakeholder trust.

Proposition 3: Voluntary actions toward one stakeholder are associated with the increased trust of other stakeholders that observe the firm's actions.

### Stakeholder Transparency

Scholars have suggested the inclusion of transparency to the ability, benevolence, integrity framework (Schnackenberg & Tomlinson, 2014; Pirson & Malhotra, 2011). This is because transparent organizations share information that helps stakeholders make decisions regarding its relationship with the organization (Rawlins, 2008; Bachmann et al., 2015) and is related to trustworthiness (Pirson & Malhotra, 2011). Transparency may be particularly important to building stakeholder trust when there may be limited previous interactions and information asymmetries are high (Hardin, 2002).

Transparency is demonstrated when organizations disclose information that is clear and accurate (Schnackenberg & Tomlinson, 2014). For example, Rosengren (1999) identified different types of information that banks do not disclose to the public and argued that the sharing of this information would increase transparency. Winkler (2000) claimed that increased transparency with stakeholders would increase effective communication. When interviewing

stakeholders about trust in business, Pirson and Malhotra (2011) found a number of references to organizational transparency. This may be because transparency is closely related to integrity. Integrity reflects honesty and openness. In other words, organizations that have nothing to hide and that are forthcoming in their communications with stakeholders are more likely to be perceived as trustworthy. Although the ability, benevolence, integrity framework (Mayer et. al 1995) discusses openness as a form of integrity, they did not test transparency within subsequent empirical studies.

Still, there is reason to believe that transparency is related to integrity, and as a result, can undermine or build stakeholder trust. In 2009, Toyota experienced an acceleration issue in their vehicles that brought a crisis of stakeholder trust. Rather than issue customer warnings directly, Toyota asked dealers to merely inspect floor mats - thought to be the most likely cause at the time. When Toyota finally released a statement about the probable cause and reassuring the public that their vehicles were among the safest on the road, the NHTSA took the unusual step of labeling the statement as “inaccurate and misleading” (Ireson, 2009). Less than accurate communications and disclosures hurt the perceived trustworthiness of Toyota because it called into question its integrity. Following this crisis, sales decreased as did perceptions of quality (Bunkley, 2011). In another example, McDonald’s launched a campaign in Canada, Australia and New Zealand to increase transparency with its customers. It created a series of videos demonstrating why the food in its commercials appeared different than what customers saw in the restaurant. This act of transparency, although unconventional, served to increase trust and improve the company’s reputation (Gavronksi, 2013).

Given the heightened interest in the ethics of business and modern media capabilities that can disseminate information to all stakeholders, acts of transparency that convey organizational

integrity may be more important than ever. Hence, organizational transparency is associated with increased trust of stakeholders.

Proposition 4: Actions that convey organizational transparency toward one stakeholder are associated with the increased trust of other stakeholders that observe the firm's actions.

### Stakeholder Responsiveness

Organizational responsiveness is a predictor of business success (Webb & Pettigrew, 1999) because the ability of a firm to quickly respond to its environment is associated with firm performance (Kuratko, Goodale, & Hornsby 2001). Organizational responsiveness “enables companies to quickly detect market changes [and] reconfigure their processes to meet new market requirements” (Hoyt, Huq, & Kreiser, 2007, p. 1573). This is consistent with stakeholder theory and the idea that organizations create value to the extent that they are able to understand and respond to stakeholder demands.

Embedded in the idea of responsiveness is both timing and ability. Responsiveness requires that organizations respond to stakeholder needs in a timely fashion. The timeliness of organizational responses are important because stakeholders generally expect the worst in the absence of information (Bachmann et. al., 2015). Responsiveness also requires that organizations have the ability to respond to stakeholder demands. For example, during the lead-based paint crisis, Mattel quickly marshaled resources and capabilities to recall products, organize new industry regulations and install supplier controls to prevent the issue from reoccurring. These timely actions conveyed Mattel's operational ability and helped restore trust. In contrast, following an investigation into Toyota's acceleration issue, the hierarchical structure, internal



processes and systems were sighted as causes to Toyota's sluggish response (Dietz & Gillespie, 2012). Although Toyota was quick to release a statement regarding the issue, it was slow to take corrective action.

In addition to ability, responsive actions can also convey benevolence and integrity. When organizations are responsive to the needs of a stakeholder, they can demonstrate concern for that stakeholder. In contrast, self-interest may be assumed when an organization is tepid in its response and appears to be considering options that will protect its own interests. Also, when an organization immediately responds to the needs of a stakeholder in various forms of communication and then subsequently takes actions that deliver on the explicit implicit promises communicated, the organization conveys integrity. For these reasons, organizational responsive toward one stakeholder can increase the trust of other stakeholders in the focal firm.

Proposition 5: Actions that convey organizational responsiveness toward one stakeholder are associated with the increased trust of other stakeholders that observe the firm's actions.

It is useful to set out potential boundary conditions for stakeholder connectedness. While the actions of a firm toward another stakeholder may have a ripple effects across the stakeholder system, some stakeholders may be more positively or negatively impacted by these actions. Although there are a number of moderating conditions that may heighten or diminish stakeholder connectedness, stakeholder proximity may be particularly important.

Jones (1991) introduced the idea of stakeholder proximity when evaluating the moral intensity of an issue. Proximity is feeling of nearness, psychological, social, cultural or physical to another actor or group. Beyond the general physical connotations of the term, proximity is a

sense of nearness to the people who are harmed or benefited by a firm's actions. Jones (1991) argued that increased proximity was associated with increased intensity of moral issue. For example, when individuals are laid off, the proximity of employees in the same plant increases the moral intensity of the action as compared to the perspective of employees from a plant in another state.

Recently, Brown and colleagues (2016) applied the notion of proximity to stakeholder trust repair. They claim the proximity of stakeholders should be considered when devising a course of action to repair trust. According to this argument, following the disaster at the Deepwater Horizon, BP's actions to repair trust should be targeted at stakeholders directly impacted by the oil spill as well as those that are most proximate to these stakeholders. In other words, consideration should be made for those that are socially, psychologically or culturally connected to consequences of the spill. For example, some stakeholders that were far removed from the spill may have strong feelings about BP's actions because of their deep feelings about the fragility of the environment. Other relevant stakeholders may be extended family members of those that lost their jobs.

Stakeholder proximity can also influence the degree to which a firm's actions toward one stakeholder builds trust with other stakeholders. Stakeholder connectedness through trust assumes that when stakeholders observe the actions of a firm toward one stakeholder, they may wonder if they would receive the same treatment from the firm if they were in a similar situation. Following the Flint, Michigan water quality crisis, investigators found that the Environmental Protection Agency (EPA), a governmental regulatory agency, played a significant role in allowing the lead-based water to be distributed to its residents. Local citizens lost trust in the EPA. Once more, citizens across the U.S. lost trust in the EPA. Following the crisis, only 47%

percent of Americans believed their tap water was safe (White & Swanson, 2016). Here, residents of Flint, Michigan were proximate to individuals who consume water from public utilities across the U.S.

Proximity enables the empathy required to experience a transfer of trust in a stakeholder ecosystem. Proximity allows stakeholders to relate to the circumstances of another stakeholder. It follows that those stakeholders that are most similar (e.g. values, interests, geography, demography) to focal stakeholder, are most likely to place themselves in the shoes of that stakeholder and internalize the trust building or trust eroding actions of a firm. As a consequence, social, psychological, cultural and physical proximity of a stakeholder can heighten the effects of stakeholder connectedness in building (or eroding) trust.

Proposition 6: Stakeholder proximity will increase the effects of stakeholder connectedness through trust such that a firm's actions toward one stakeholder to build trust will increase the trust of other stakeholders that are most proximate to the focal stakeholder.

#### Problems with Stakeholder Prioritization

In the last proposition, I describe the potential pitfalls and negative effects on stakeholder trust for firms that fail to consider the interconnectedness of stakeholders. Due to the complexity of stakeholder demands and interests coupled with a firm's limited resources and attention, scholars have attempted to delimit and prioritize who, when and why stakeholders matter. Some have argued it is more pragmatic to treat a narrow group of stakeholders favorably. The natural follow up to the assertion of stakeholders' importance is "who are the groups and how will we serve them?" Mitchell and colleagues (1997) classified stakeholders and their influence by the characteristics of power, legitimacy and urgency. They found that the more one group possesses

a concentration of these attributes, the more likely managers are to pay attention and respond to individual stakeholder's claims. Eesley & Lenox (2006) later found some empirical support for this framework. Others have classified stakeholders as primary and secondary (Clarkson, 1995) or having normative and derivative legitimacy (Phillips, 2003).

Yet, classifying and categorizing stakeholders can be problematic and is not without its limits. To wit, there are a number of groups who can have a significant influence on business that may not fall into succinct categories (e.g. lack power, legitimacy and urgency). It may be that those stakeholders that are, on the surface, deemed as less important can significantly influence the operations of a firm. In other words, firms can underestimate stakeholder power and the act of valuing some stakeholders as more important than others can in itself have consequences. The calculus with which a firm makes its priority judgments might offend groups viewed as "less important" and give them legitimacy and urgency, which therefore gives them power. Such is the case of Nike where changes in manufacturing practices and the treatment of workers started with what many would consider a powerless group of Asian workers. When harsh conditions and practices were made visible to other stakeholders, pressure mounted and Nike was forced to make changes. In this case, Nike risked losing value because of how one group of stakeholders perceived the treatment of another group. These events have had seriously damaging effects on stakeholder trust. The way that Nike was perceived to treat its subcontracted workers in Asia had measureable impacts on the way that customers, activists and regulators viewed Nike.

Paradoxically, those workers did not work for Nike but rather for Nike's suppliers. As in this example, stakeholder classifications can be unsatisfying because they fail to account for the ways in which stakeholders are interconnected. Freeman admitted that "no matter how many positive attributes any given candidate may have, no single definition seems to work for all purposes in

all situations...all have limitations and weaknesses” (2009, p. 211). Furthermore, if the process of compartmentalizing stakeholders is flawed, firms may unnecessarily and unwisely exclude groups that are critical to the firm’s success.

Prioritization is also problematic due to the subjective nature of criteria for judging fairness. Even if the firm communicates its criteria for prioritization, it is not clear that stakeholders will agree to the prioritization or to the criteria upon which the prioritization is based. Fairness is subjective (Adams, 1965) and assessments of fairness are often self-serving (Diekmann et al., 1997; Loewenstein, Issacharoff, Camerer, & Babcock, 1993). For example, some stakeholders may assess fairness based on the norms of reciprocity (Gouldner, 1960) and perceive that their rewards are not equal to their input. Other stakeholders may perceive fairness as a function of need (Leventhan, 1976) and that their needs are greater than other stakeholders regardless of their input. Indeed, there is evidence of a number of standards by which individuals judge fairness (Colquitt et al., 2011). So, some stakeholders could claim importance based on their history with the firm while others could claim importance based on future developments (e.g. political, economic). As a consequence, prioritization invites stakeholders to make judgments about the distribution of resources based on varying criteria, and may foster dissatisfaction and contention among stakeholders as well as animosity toward to focal firm.

#### Prioritization and the Erosion of Stakeholder Trust

Theory and research suggests that prioritization of stakeholders erodes trust because it decreases perceptions of ability, benevolence and integrity. First, prioritization weakens perceptions of the ability of a firm because it creates uncertainty for when (if ever) resources will be distributed among secondary stakeholders. Indeed, prioritization signals a timing and sequence of the distribution of resources depending on stakeholder importance. Deutsch (1958)

suggested that when the “temporal fruits of cooperation” are distributed among multiple groups, it is unclear to those groups who are not selected first that resources will eventually reach them. Recently American Airlines agreed to give raises to its pilots and flight attendants. In turn, shareholders expressed frustration. One analyst for a major bank wrote: “Labor is being paid first again. Shareholders get the leftovers” (Kolhatkar, 2017). Here, prioritization may cause stakeholder’s lower on the priority list to doubt that the firm has the ability to satisfy its needs and interests. The uncertainty associated with the firm’s ability to meet stakeholders’ claims influences the willingness of stakeholders to be vulnerable to that firm.

Second, prioritization decreases trust because it conveys the notion of scarcity, invites competition for scarce resources, and undermines the perceived benevolence of a firm. Prioritization primes the mentality that, because resources are scarce, the firm is satisfying the interests of some stakeholders at the expense of others and thus, calls into question the “good” intentions of a firm. When Boeing prioritized shareholders over employees, it threatened to leave Washington and invited a competition among stakeholders (including potential stakeholders in other states) to compete for resources and reduce cost. This competition resulted in Washington state legislators reluctantly granting a \$9 billion tax break and union workers conceding pensions in favor of 401ks. Boeing’s hardball tactics decreased its perceived benevolence (Seaquist, 2014) and eroded stakeholder trust. Prioritization can increase the “industrial ethic of competition” and a win-lose orientation that leads to common suspicion and mutual distrust (Blake & Mouton, 1961). Zero-sum prioritization is antithetical to harmonious stakeholder relationships because a competitive orientation diminishes trust among parties (Deutsch, 1958).

Third, because fairness is subjective (Adams, 1965; Colquitt et al., 2011) prioritization may be viewed as favoritism and undermine the perceived integrity of the firm. Scholars have

argued that favoritism is a betrayal of trust (Elangovan & Shapiro, 1998) because it violates expectations of fairness. In other words, favoritism occurs when groups receive disproportionate rewards that are not perceived to be based on acceptable criteria. There is also empirical evidence linking favoritism with decreased trust. In a study of family businesses, favoritism was negatively associated with organizational trust (Keles, Özkan, & Bezirci, 2011). Others have theorized negative affects of favoritism at the team and organizational unit level. Dasborough and colleagues (2009) argued that the negative effects of favoritism toward one member of a group spreads to other group members and produces low levels of trust in the leader of the group. Fulmer & Gelfand (2012) argue that the socio emotional processes associated with favoritism in groups also operate at higher levels of analysis, including at the unit level. Stakeholder prioritization can result in perceptions of stakeholder favoritism, decrease perceived integrity and erode trust in the focal firm.

Finally, in some cases, prioritization can contribute to unethical behavior and undermine the integrity of a firm. At Siemens, an aggressive growth strategy focused on shareholder value, helped managers justify making bribes in order to hit performance targets (Gow, 2008). Toyota and Volkswagen also favored growth over the interests of its consumers that impaired its ability to continuously improve and resolve problems (Dietz & Gillespie, 2012). Prioritizing executives and shareholders at the expense of customers has eroded stakeholder trust in these companies. Recently, Wells Fargo employees created 1.5 million unauthorized accounts in order to increase bank fees. Extremely aggressive growth targets encouraged this behavior. Following the incident, Wells Fargo fired 5,300 managers and staff, impacting the trust of other stakeholders (Brodwin, 2016). In sum, although the prioritization of stakeholders can be considered pragmatic, it weakens perceptions of ability, benevolence and integrity. Prioritization of

stakeholders introduces uncertainty regarding the distribution of resources, invites a competitive orientation, conveys favoritism, and can encourage unethical actions - decreasing stakeholders' willingness to be vulnerable to the focal firm.

Proposition 7: The prioritization of stakeholders decreases stakeholder trust in the focal firm.

### Discussion and Implications

In the information age, organizations are now more connected than ever. Real time reporting mechanisms, the pervasiveness of social media and heightened public interest have made the actions of businesses more accessible and meaningful to all stakeholders. In the past stakeholders may not have been privy to certain interactions between the firm and a stakeholder. Today, the visibility of these interactions and the signals they provide can impact other stakeholders and may influence the future interactions of stakeholders and the firm. Yet, not all actions are equally influential in building or eroding trust with other stakeholders. Some actions can provide clearer cues about the trustworthiness of an organization. Thus, understanding the underlying mechanisms of trust building activities is critical to developing and maintaining trust with stakeholders.

In this article I have laid out an alternative framework to the prescription of focusing on of “who matters, when” and described a systems approach to stakeholder management that highlights stakeholder connectedness. I have argued that the notion of categorizing and differentiating stakeholders is detrimental to building trust and developing quality relationships with stakeholders. Some scholars believe that the most significant task is to identify “which stakeholders are most important” and make tradeoffs among them. However, this approach to



stakeholder management may have unintentional consequences, including decreasing stakeholder trust. Privileging one stakeholder over another may decrease the willingness of other stakeholders to be vulnerable to that business. With some appreciation for tensions associated with the prioritization of stakeholders, this article answers the call for new models of stakeholder management (Freeman et al., 2010).

This theoretical model provides insight into how the treatment of a smaller group of stakeholders can be generalized across a broader constellation of stakeholders, yielding increased levels of stakeholder trust. Indeed, through actions targeted at one stakeholder, businesses can increase trust with other stakeholders. This is because interactions between the firm and one stakeholder can have spillover effects on other stakeholders. An ecosystem of stakeholders is one in which the firm is “embedded in interconnected networks of relationships through which the actions of a firm reverberate with both direct and indirect consequences” (Freeman et al., 2010 p. 47). For these reasons, the framework in this article provides a more holistic and practical solution to building stakeholder trust.

In this article, I suggest that a contingent approach to stakeholder management (Pirson et al., 2017) may be difficult to operationalize because it requires custom messaging or treatment for each stakeholder. A contingent approach to stakeholder management may also signal inauthenticity by changing actions based on conditions, or inequality by treating some stakeholders differently than others. Admittedly, stakeholders are different and have different needs and some accommodation should be made for these differences. To be clear, I am not arguing for the uniform treatment of all stakeholders. However, due to the aforementioned reasons, a focus on differences can undermine stakeholder relationships and erode stakeholder trust. Rather, by focusing on a fundamental need of all stakeholders - trust that empowers

mutually beneficial and productive relationships - firms are more likely to facilitate the process of value creation.

In addition to contributions to stakeholder theory and stakeholder trust, this article contributes to the larger body of research on trust. First, it contributes to the idea of transfer of trust. Transfer of trust examines how individuals can build trustworthiness through third parties (Bachmann & Inkpen, 2011). However there are limitations to these trust brokers because they can be an imperfect source where information is skewed or biased. This article expands the idea of trust transfer by shifting the source of information from the verbal accounts of an informant to the visible interactions between two parties. In this way, the visible actions that build trust in one party have the potential to transfer to trust formation in other parties. These actions also have the potential to provide less biased cues about trustworthiness. Second, this article helps contribute to trust by synthesizing recent work on trust formation. Rather than adding dimensions to the ability, benevolence, integrity framework, perhaps these new suggested additions (Schnackenberg & Tomlinson, 2014) fall within an existing dimension. For example, I have argued why transparency may be a sub-dimension of integrity.

This article has implications for research as well as business professionals. For scholars, in addition to the aforementioned theoretical contributions, my article presents testable propositions to help further the field and to spur additional research in stakeholder theory and stakeholder trust. While I have I explored the mechanisms that connect stakeholders, future research is needed to understand the boundary conditions of stakeholder connectedness. In addition to proximity, certain characteristics of stakeholders may increase or decrease the power of trust transfer. Also, there are various forms of communication by which a firm's actions become visible to other stakeholders. What mediums are effective in conveying the desired

meaning of actions? Here, stakeholder trust in the medium itself may play a role. For example, “fake news” and perceived biases in the media may create noise and disrupt the ability of these mediums to convey desired meaning.

For managers, this framework provides guidance on ways to manage finite resources and attention. Within a systems approach, purposeful key actions can be leveraged and magnified to have greater influence. This article provides examples and practical ways to harness actions to increase trustworthiness by demonstrating responsiveness, transparency and voluntary action. This framework also helps managers to more fully appreciate the importance and dignity of each stakeholder relationship. The treatment of one stakeholder can have far reaching effects and should be considered carefully.

Of course, building trust does not come without a cost -- as actions by a firm to build stakeholder trust require resources. As a result, it is possible to over or under invest in trust (Wicks et al., 1999). It follows that firms should seek for optimal levels of stakeholder trust, which in turn, can improve firm performance. Due to stakeholder connectedness, firms may underestimate the return on their investments to build trust. By failing to understand how the actions towards one stakeholder can benefit a broader group of stakeholders, firms may be over investing in trust and failing to optimize performance. In contrast, by applying the idea of stakeholder connectedness building trust, firms can better leverage scarce resources.

## Conclusion

In today’s business environment, corporate scandals have heightened interest in capitalism and ethics and newer models are needed to address the “ethical management process”. (Freeman et al., 2010). The creation and maintenance of stakeholders within a system, rather than just a few select stakeholders, may be instrumental in realizing a new model for ethical

management. This is consistent with Henry Kravis, a well-know takeover artist who said “you have to focus on all stakeholders...we’re really hammering that long-term value is only achieved if growth benefits all stakeholders in a company from owners to employees, communities and even governments. Trust must be earned over the long-haul and maintained constantly.” (in Freeman et al., p. 28). When it comes to building stakeholder trust, there is much more work to be done.

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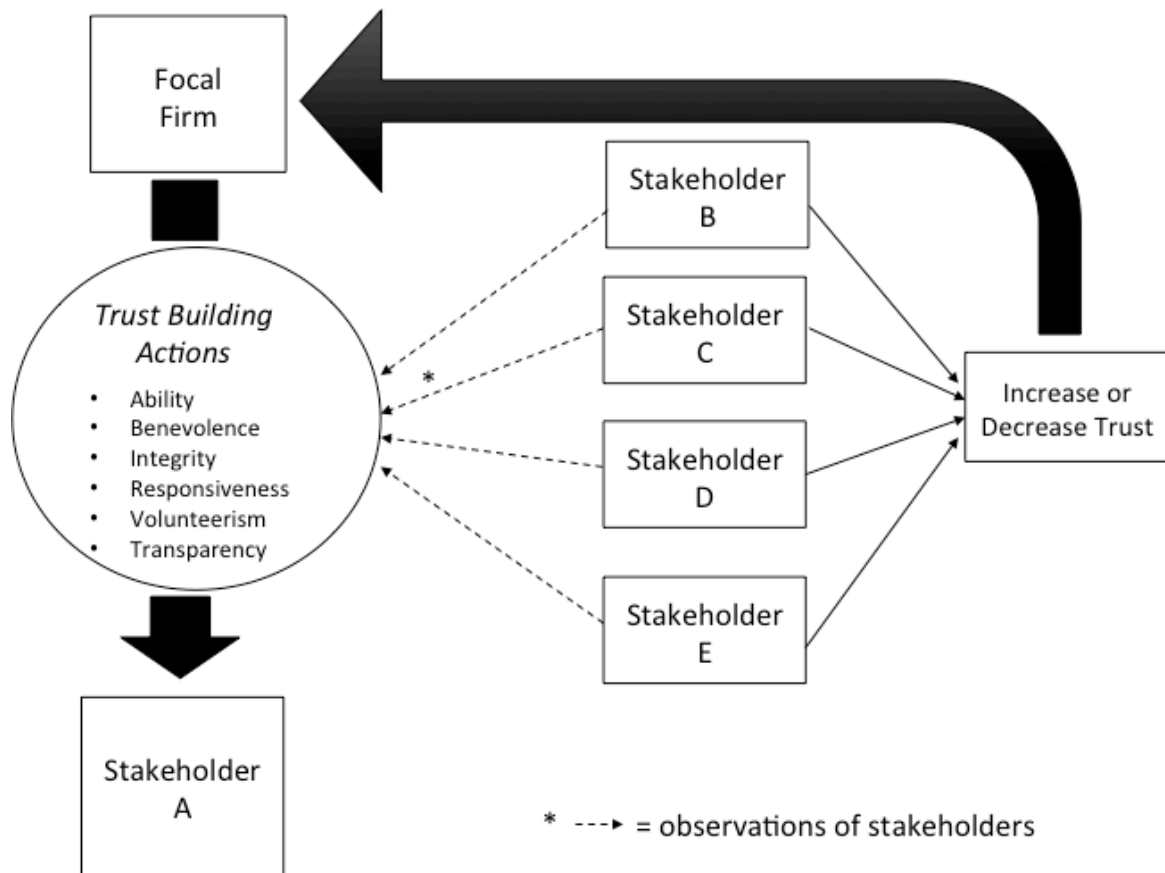
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1. How Firms Decrease or Increase Stakeholder Trust.



Figure